

Message Text

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SUBJECT: TINDEMANS REPORT-COMMISSION REACTION TO ECONOMIC PROPOSALS

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1. BEGIN SUMMARY: COMMISSION OFFICIALS ARE DISAPPOINTED THAT THE TINDEMANS REPORT FAILED TO PROPOSE AN INNOVATIVE BLUEPRINT FOR EC ECONOMIC INTEGRATION. THEY TAKE EXCEPTION TO THE IDEAS OF ADOPTING A TWO-TIER STRUCTURE AND HANDLING EC-US ECONOMIC CONSULTATIONS WITHIN THE CONTEXT OF THE PROPOSAL FOR A MEMBER STATE HEAD OF GOVERNMENT TO REVIEW EC-US RELATIONS. COMMISSION OFFICIALS, NEVERTHELESS, BELIEVE THE REPORT CONTAINS PROPOSALS THAT COULD STRENGTHEN INTEGRATION AND THEY PLAN TO INCLUDE THESE IN THE COMMISSION'S 1976 WORK PROGRAM. THEY HAVE IN MIND MAKING THE SNAKE AN EC INSTRUMENT, STRENGTHENING ECONOMIC POLICY COORDINATION AND THE ROLE OF THE EUROPEAN MONETARY COOPERATION FUND, AND PROPOSING FIRST STEPS TO LIBERALIZE CAPITAL MARKETS. END SUMMARY.

2. DISAPPOINTMENT: EC COMMISSION FINANCIAL OFFICIALS ARE DISAPPOINTED IN THE TINDEMANS REPORT BECAUSE IT FAILS TO SET FORTH A
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VIGOROUS, INNOVATIVE PROGRAM FOR EUROPEAN ECONOMIC INTEGRATION.

THEY AGREE WITH ITS CONCLUSIONS, HOWEVER, THAT THERE IS NO CONSENSUS ON HOW TO INTEGRATE THE EC ECONOMIES AND NO REAL PROGRESS CAN BE OBTAINED WITHOUT A NEW PROGRAM THAT IS ACCEPTABLE TO THE MEMBER STATES. BUT, OFFICIALS HERE DISAGREE WITH TINDEMANS THAT THE EC SHOULD REAFFIRM THE THREE-STAGE WERNER PROGRAM OF 1969 FOR ECONOMIC AND MONETARY UNION (EMU). THIS PROGRAM HAS PROVEN TO BE POLITICALLY UNACCEPTABLE TO THE NINE. INSTEAD, THE COMMISSION WOULD LIKE TO PROCEED STEP-BY-STEP TOWARD INTEGRATION, MAKING PROGRESS IN THOSE AREAS WHICH ARE ACCEPTABLE.

3. SOME PROGRESS: COMMISSION OFFICIALS ALSO DISAGREE WITH TINDEMANS THAT THE EC IS IN CRISIS AND WITHOUT EMU THE EC WILL SLIDE BACKWARD. THEY BELIEVE THAT IN SOME RESPECTS THE ENERGY CRISIS AND ECONOMIC RECESSION HAVE STRENGTHENED EC SOLIDARITY BECAUSE THESE EVENTS HAVE UNDERLINED THE NEED FOR CONCERTED ACTION AND THE NINE'S INTERDEPENDENCE. THERE IS PERCEPTIBLE PROGRESS TOWARD ECONOMIC COORDINATION, ALBEIT MUCH TOO SLOW. OFFICIALS DO NOT SEE EMU AS THE PARAMOUNT FORCE TO OBTAIN IN EUROPEAN UNION. PROGRESS CAN BE MADE TOWARD UNION WITHOUT MAKING MAJOR STRIDES TOWARD ECONOMIC INTEGRATION.

4. TWO TIERS: COMMISSION OFFICIALS, NEVERTHELESS, AGREE WITH TINDEMANS THAT A MAJOR STEP NEEDS TO BE MADE TOWARD EMU, BUT THEY ARE AT A LOSS TO FIND A POLITICALLY ACCEPTABLE PROPOSAL. COMMISSION OFFICIALS, HOWEVER, ARE OPPOSED TO A FORMAL "NEW APPROACH" OF TEMPORARILY HAVING A GREATER DEGREE OF INTEGRATION BETWEEN CERTAIN MEMBERS THAN OTHER, I.E., A TWO-TIER SYSTEM. THEY ARE FEARFUL THAT FORMAL ADOPTION OF SUCH A SYSTEM WOULD DEEPEN THE ECONOMIC DISPARITIES AMONG THE MEMBER STATES. INSTEAD, THE EC SHOULD ADOPT COMMON POLICY GOALS, WITHOUT ANY DIFFERENTIATION AMONG THE MEMBER STATES. ON A CASE-BY-CASE BASIS, HOWEVER, TEMPORARY EXCEPTIONS COULD BE GRANTED TO MEMBER STATES, WHICH CANNOT MEET THESE GOALS. IN ADDITIONS, SHOULD RELATIVELY WEAK ECONOMIES SUCH AS GREECE EVENTUALLY JOIN THE EC, A TWO-TIER STRUCTURE COULD PERMANENTLY DIVIDE THE EXISTING EC-NINE.

5. COMMISSION PROPOSALS: COMMISSION OFFICIALS BELIEVE, NEVERTHELESS, THAT TINDEMANS OUTLINES SEVERAL USEFUL FIRST STEPS LIMITED OFFICIAL USE

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TOWARD ECONOMIC INTEGRATION. THE COMMISSION PLANS TO INCORPORATE THESE ELEMENTS IN ITS 1976 WORK PROGRAM WHICH IT WILL ANNOUNCE IN EARLY FEBRUARY.

6. EUROPEAN MONETARY SNAKE: COMMISSION FINANCIAL OFFICIALS AGREE WITH THE REPORT'S RECOMMENDATION THAT THE SNAKE SHOULD BECOME AN EC INSTITUTION AND EC NON-SNAKE MEMBERS SHOULD BE INCLUDED IN ITS DELIBERATIONS. IT CONSEQUENTLY PLANS TO PROPOSE THAT THE FINANCE

MINISTERS OF SNAKE COUNTRIES SHOULD HOLD THEIR MEETINGS WITHIN THE FINANCE COUNCIL. NON-EC COUNTRIES ASSOCIATED WITH THE SNAKE WOULD NOT ATTEND THESE MEETINGS BUT COULD CONTINUE TO PARTICIPATE IN TECHNICAL-LEVEL MEETINGS. THE COMMISSION WANTS TO DRAW UP POLICY CONDITIONS TO FACILITATE THE UK'S AND ITALY'S RETURN TO THE SNAKE. OFFICIALS ARE NOT HOPEFUL THAT THESE COUNTRIES WILL BE ABLE TO QUICKLY REJOIN THE SNAKE BECAUSE THIS WOULD REQUIRE MORE FINANCIAL SUPPORT AND MORE ECONOMIC RESTRAINT THAN ARE PRESENTLY POLITICALLY POSSIBLE.

7. ECONOMIC POLICY COORDINATION: COMMISSION OFFICIALS ALSO WANT TO STRENGTHEN THE SNAKE'S ROLE IN COORDINATING MEMBER STATE MONETARY POLICIES. THEY DISAGREE WITH TINDEMANS' PROPOSAL THAT THE SNAKE SHOULD BE THE PRIMARY STARTING POINT FOR COORDINATING ECONOMIC POLICY. INSTEAD, THEY PROPOSE STRENGTHENING OTHER EC INSTITUTIONS THAT HAVE POLICY COORDINATING RESPONSIBILITIES SUCH AS THE MONETARY COMMITTEE AND ECONOMIC POLICY COORDINATING COMMITTEE. THEY WOULD LIKE TO SET UP A SUB-GROUP OF THE MONETARY COMMITTEE TO ANALYZE AND ESTABLISH GUIDELINES FOR MEMBER STATE BUDGETS. COMMISSION OFFICIALS ALSO PLAN TO TAKE UP TINDEMANS' PROPOSAL THAT THE COMMISSION ANNUALLY SUBMIT TO THE COUNCIL AN ASSESSMENT OF EC PROGRESS TOWARD EMU. IN THIS REGARD, THEY PLAN TO GIVE MORE ATTENTION TO ITS ANNUAL ECONOMIC POLICY RECOMMENDATION FOR THE MEMBER STATES.

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8. EUROPEAN MONETARY COOPERATION FUND(EMCF): THE MEMBER STATES HAVE CONTINUALLY REJECTED COMMISSION EFFORTS TO MAKE THE EMCF AN EFFECTIVE INSTRUMENT IN EC MONETARY MATTERS. NOW THAT TINDEMANS HAS PROPOSED STRENGTHENING IT, THE COMMISSION IS CONSIDERING THE SUGGESTION THAT MEMBER STATES CONTRIBUTE 10 PERCENT OF THEIR RESERVES TO A COMMON RESERVE POOL WITHIN THE EMCF. MEMBER STATE CONTRIBUTIONS MIGHT BE FINANCED FROM IMF GOLD RESTITUTIONS. THE EMCF COULD DRAW ON THIS POOL TO PROVIDE SUPPORT TO MEMBER STATES EXPERIENCING BALANCE OF PAYMENTS PROBLEMS AND TO INTERVENE IN MARKETS IN ORDER TO HELP STABILIZE EXCHANGE RATES. THE EMCF WOULD KEEP ITS ACCOUNTS IN THE NEW EUROPEAN UNIT OF ACCOUNT (A MARKET BASKET OF EC CURRENCIES) AS A MODEST FIRST STEP TOWARD USING THE ECU FOR ALL EC FINANCIAL TRANSACTIONS. COMMISSION OFFICIALS CONCEDE, HOWEVER, THAT MEMBER STATE RESISTANCE TO THESE PROPOSALS HAS NOT CHANGED. TINDEMANS' HOPES THAT THE EMCF MIGHT EVOLVE INTO AN EC CENTRAL BANK IS JUST WHISTLING IN THE WIND FOR THE TIME BEING.

9. CAPITAL MARKETS: THE COMMISSION HAS PLANS FOR A SERIES OF PROPOSALS TO ADD SPECIFICITY TO TINDEMANS' CALL FOR A LIBERALIZATION OF EC CAPITAL MARKETS. THE COMMISSION PLANS SHORTLY TO

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PROPOSE SEVERAL FIRST STEPS TOWARD COMMON STANDARDS FOR STOCK AND BOND TRANSACTIONS. THE COMMISSION'S WORK PROGRAM WILL INCLUDE PROPOSALS TO ESTABLISH AN EC DEPOSIT INSURANCE SCHEME AND A SYSTEM TO EXCHANGE CREDIT INFORMATION AMONG EC BANKS. THESE FIRST STEPS, HOWEVER, FALL FAR SHORT OF AN INTEGRATED CAPITAL MARKET. COMMISSION OFFICIALS ADD THAT REAL LIBERALIZATION CANNOT BE OBTAINED AS LONG AS ALL EC CURRENCIES ARE NOT PART OF A STABLE EC EXCHANGE SYSTEM.

10. COORDINATION WITH US: COMMISSION FINANCE OFFICIALS REJECT TINDEMANS' IDEA OF ASKING A HEAD OF GOVERNMENT TO DISCUSS WITH US AUTHORITIES THE CHARACTER AND SCOPE OF EC-US RELATIONS AS AN OPPORTUNITY TO PUT FORWARD THEIR OWN PROPOSAL FOR COORDINATION OF ECONOMIC POLICIES. COMMISSION FINANCIAL OFFICIALS WOULD LIKE TO IMPROVE COORDINATION OF ECONOMIC AND MONETARY POLICY WITH THE US (SEE REF C). THEY BELIEVE SUCH DISCUSSIONS, HOWEVER, MUST BE WITHIN THE EC FRAMEWORK AND MUST REPRESENT ALL PARTIES CONCERNED. TWO POSSIBILITIES ARE UNDER CONSIDERATION: (1) ESTABLISHING AN EC GROUP MADE UP OF THE PRESIDENT OF THE FINANCE COUNCIL, A COMMISSIONER, AND MEMBER STATE AND COMMISSION TECHNICIANS TO MEET PERIODICALLY WITH US AUTHORITIES TO DISCUSS ECONOMIC AND MONETARY POLICIES; OR (2) DESIGNATING A SUBGROUP WITHIN THE SEMI-ANNUAL EC-US CONSULTATIONS TO CONSIDER ECONOMIC POLICY ISSUES. (WE DO NOT KNOW WHAT SOAMES' REACTION WILL BE TO

THESE IDEAS). COMMISSION OFFICIALS REALIZE THAT THE BIS CENTRAL BANKERS' COMMITTEES WILL CONTINUE TO BE THE MAIN COORDINATORS OF MONETARY POLICY. THEY ALSO REALIZE THAT THE BIG SIX ARE LIKELY TO CONTINUE TO EXCHANGE VIEWS. THE COMMISSION IS UNHAPPY THAT THE EC AS SUCH IS NOT REPRESENTED AT THESE RESTRICTED MEETINGS, BUT AS LONG AS DECISIONS ARE NOT TAKEN WHICH AFFECT ITS COMPETENCE, COMMISSION OFFICIALS ARE NOT PLANNING TO PROPOSE THAT THE EC COORDINATE ITS VIEWS BEFORE ANY FUTURE SUCH MEETINGS.

11. COMMENT: THE COMMISSION MAY HAVE A NUMBER OF ECONOMIC PROPOSALS IN MIND FOR ITS 1976 WORK PROGRAM, BUT PROSPECTS ARE NOT BRIGHT FOR PROMPT COUNCIL ACTION, ESPECIALLY REGARDING STRENGTHENING THE EMCF AND ECONOMIC POLICY COORDINATION.
END COMMENT.
GREENWALD

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